

2026 Outlook: Charting the Year Ahead

MACRO PULSE | As investors look to 2026, markets are defined by tension.

The U.S. economy is moving later into its cycle, yet loose financial conditions continue to delay typical recession dynamics. Valuations remain elevated, with market leadership concentrated in a narrow set of AI-driven companies. Globally, conditions are broadly stable, though rapid policy or geopolitical shifts mean sentiment can adjust quickly. Overall, supportive policy continues to counterbalance late-cycle pressures, setting the stage for a constructive, yet delicate, market environment.

1 Base Case for 2026: Supportive policy + AI momentum

- **Policy backdrop remains constructive**, driven by modest Fed easing, targeted liquidity support, and a pro-growth fiscal stance ahead of the U.S. midterm elections.
- **AI continues to anchor capital markets**, reinforcing a virtuous cycle in which earnings strength and capex intentions are rewarded by investors.
- **Global policy environments are neutral to supportive**, particularly in Europe, Japan, and China, helping sustain growth and diversification opportunities.
- **Private markets activity continues to improve**, supported by lower rates, more abundant liquidity, and strong underlying credit quality.

Bottom line: A supportive policy environment and AI-led earnings momentum provide the foundation for resilient markets.

2 What's New Since 2025: A more resilient, expensive market

- Following “**Liberation Day**,” markets **proved more resilient** to policy change than expected.
- **Fed easing, deregulation, and AI capex investment** helped stabilize valuations and restore risk appetite.
- Political uncertainty in **Japan, the UK, and France** pushed global sovereign yields higher, elevating debt sustainability concerns.
- Strong **ex-U.S. equity outperformance in early 2025 faded** as the dollar stabilized in the second half of the year.

Takeaway: Markets absorbed major policy shifts with surprising strength, though regional differences remain in focus.

3 Key Risks to Monitor: Potential shifts to the narrative

- **Economic overheating** that leads to a renewed acceleration in inflation.
- **Surprise policy actions** (trade measures, legal shifts, or fiscal changes) that disrupt corporate planning and supply chains.
- **AI-related risks**, including elevated expectations, supply bottlenecks, and power capacity constraints.
- **Dollar volatility** shaped by global capital flows, central bank activity, and evolving allocation preferences.
- **Questions around Fed independence**, which could weigh on market functioning if concerns intensify.

Risk framing: While the base case remains constructive, the balance of risks is shifting toward policy unpredictability and overheating pressures.

High conviction investment ideas*

MARKET CONVICTIONS		PORTFOLIO CONSTRUCTION	
EQUITY	<ul style="list-style-type: none"> We believe accommodative Fed and fiscal policy will support risk-on positioning in 2026, with upside inflation risks – both cyclical and policy-driven – acting as a “brake” on the extent of policy support. Deploying new capital is difficult when valuations are this rich. We see opportunities for diversifying additions in U.S. large cap value and high quality small cap equities, ex-U.S. developed market equity, and short duration credit (for its equity-like risk characteristics). AI is likely to remain a concentrated equity market driver, with a virtuous cycle of quality earnings growth and capital expenditures rewarded by the market. Global preference for U.S. assets can turn on a dime, and ex-U.S. equity outperformance was a powerful diversifier in 2025. Higher fiscal spending and loan growth in Europe, along with a pro-growth policy direction in Japan, support an ongoing neutral allocation to ex-U.S. equities in 2026. 	1	Fully invested (market weight) in U.S. large cap equities; prioritizing strong earnings quality
		2	Upgrading small-cap exposure to neutral; focusing on quality names benefiting from AI and policy tailwinds
		3	For new equity deployments, diversifying equity exposure into (1) financials, (2) materials, and digital infrastructure tied to the AI theme, (3) high quality small caps, and (4) developed ex-U.S. equity
		4	Keeping credit exposure (IG / HY / muni) shorter duration to manage rate volatility and credit risk
FIXED INCOME	<ul style="list-style-type: none"> The combination of moderate borrowing costs and tight credit spreads have investors asking whether fixed income allocations are worth the risk. In our view, the income generation opportunity remains attractive. Additional Fed cuts may also compress spreads further from here, as could any upside risks to Treasury yields. A strong economic backdrop supports credit fundamentals (interest coverage, maturity timeline) over the medium term. We see no signs of systemic over-leverage or credit quality concerns at this time. That said, the U.S. public and private credit cycle is maturing. We expected strong underwriting to pay in 2026, despite the potential for “junk,” such as CCCs within HY credit, to outperform on the back of supportive liquidity and growth conditions. We favor a “buy and hold” short duration corporate credit approach to maximize the benefits of quality while reducing exposure to volatile market-determined interest rates. 	5	Balancing short duration credit exposure with longer duration in infrastructure debt, leaning into the steeper municipal curves
		6	Within a core bond allocation, favoring structured credit. Within credit, maintaining an underweight position to floating rate bank loans.
PRIVATE MARKETS	<ul style="list-style-type: none"> Private markets allocation is growing and democratizing, contributing to competition for quality assets in large and mega deal terms. Resilient growth, lower policy rates, and deregulation have increased deal flow. 	7	Using resilient mid-market private credit and equity for qualified investor portfolios
ALTS	<ul style="list-style-type: none"> Historically, commodities and gold have served as accretive portfolio diversifiers in eras of upside inflation surprise. We are not yet concerned about a double-peak in inflation, but expect cyclical factors – resilient growth and tariff policy shifts – as well as structural factors – supply chain re-globalization, AI infrastructure spend, and trends towards energy independence – to keep inflation sticky. Geopolitical shocks have become more frequent, influencing even traditionally “safe haven” U.S. assets. 	8	Hedging inflation and geopolitical risk with both gold and commodities allocations. Considering gold/precious metals/industrial metals as a 5-20% satellite sourced from equity.

Global Market Strategy

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